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UNCLAS WELLINGTON 000882

SIPDIS

STATE FOR EB/CIP FOR AHYDE AND EAP/ANP FOR TRAMSEY
STATE PASS TO USTR FOR BWEISEL
COMMERCE FOR 4530/ITA/MAC/AP/OSAO/GPAINE

E.O. 12356: N/A
TAGS: ECPS ECON ETRD NZ
SUBJECT: NEW ZEALAND WATCHDOG BACKS CURBS ON MOBILE PHONE CHARGES

REF: (A) WELLINGTON 598; (B) WELLINGTON 428; (C) WELLINGTON

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¶1. Summary: A draft decision issued October 18 by the New Zealand Commerce Commission put telecommunications companies on notice that the agency stood ready to intercede to cut the fees charged to complete mobile telephone calls. Fees now charged by the country's mobile-phone service providers to terminate calls on their network were "significantly above cost" and should be regulated, the Commerce Commission said. The decision was welcome news to AT&T and other U.S. carriers, which had complained of paying ever-increasing fees when they pass calls onto New Zealand. The Commission's final recommendation, expected in early 2005, may or may not be the same as the draft decision. The Communications Minister will ultimately make the final decision later in the year. End summary.

¶2. The Commission, which began its investigation of mobile termination rates in May (ref A), said mobile network operators had been able to set unreasonably high rates because of limited competition in the market. Telecom and Vodafone charge about US 19 cents (NZ 28 cents) per minute to terminate calls to each other's mobile networks. The fee they charge overseas carriers has been almost 6 cents higher and was expected to increase. The Commission said a reasonable, cost-based charge would be US 11 cents (NZ 16 cents) per minute.

¶3. The Commission -- New Zealand's anti-monopoly watchdog -- predicted that regulated reduction in the rates would likely increase competition in the fixed-to-mobile market, which would result in lowering of the retail price for fixed-to-mobile calls and higher numbers of such calls. The Commission concluded that regulation would produce substantial benefits for consumers and businesses.

¶4. It did not support regulating future high-speed, third-generation mobile telephone networks, saying regulation probably would increase the risk of delay or of limited investment in the new technology. That technology allows transfer of both voice and non-voice data.

¶5. The Commission stressed that the draft report reflects its preliminary view. It will accept written submissions on the report until November 16. It will hold a conference on the mobile termination rate issue in late November and then send its final recommendation to the Communications Minister in early 2005. The minister could accept the Commission's recommendations, reject them or refer them back for further consideration.

¶6. Telecom, the country's largest fixed-line phone company and second-largest mobile phone service provider after Vodafone, contended that the mobile market was already highly competitive and did not need regulation. Bruce Parkes, Telecom's general manager of government and industry relations, said regulation might lead companies to reduce their investment in New Zealand. Vodafone asserted that even if rates were regulated, the savings would not necessarily be passed to the consumer but would be pocketed by Telecom and TelstraClear, a claim that local news reports pounced on. Meanwhile, TelstraClear, which resells Vodafone's mobile phone services but is developing its own mobile phone network, endorsed the Commission's draft decision.

¶7. A copy of the Commission's 126-page decision can found on its website, www.comcom.govt.nz.

¶8. Comment: We expect the Commerce Commission's final decision to be consistent with its draft report. However, we must note that the Commission is fully capable of reversing course, having done so in its recommendation in December against unbundling the local loop -- a turnabout from its earlier draft position (ref c). The Communications Minister affirmed that recommendation in May (ref b).

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